

ACT 255 Listening Sessions

Wisconsin Department of
Commerce
July 2004

Why Are We Here?

- Provide a brief overview of what Act 255 requires.
- Gather ideas to help Commerce write the administrative rules necessary to implement the components of the Act.

Agenda

- 10:00 - 10:30 am
 - *Background information and history*
- 10:30 - ?
 - *Questions, Suggestions, Feedback*

Background

- History of SB 261/Act 255
- Dept. of Commerce Role
- Timeline
 - *emergency rules*
- Input/Comments
 - *www.commerce.wi.gov/act255*

Act 255 Components

- Tax Credits
 - *Amy Cumblad*
- Technology Commercialization Grants and Loans
 - *Shelly Harkins*
- Entrepreneurial Centers
 - *Pam Christenson*

Tax Credit Programs

- Angel Investment Credits
- Early Stage Seed Investment Credits

What the Act Says...

- All credits are targeted to investors that invest in qualified new business ventures

Qualified New Business Venture Must....

- Be certified as such by Commerce
- Be headquartered in WI
- Employ less than 100, of which at least 51% work in Wisconsin

Qualified New Business Venture Must....

- Engage in manufacturing, agriculture, or processing or assembling products, and
- Be conducting research and development on a new product or process
- Have operated in WI for no more than 7 years

Ineligible Businesses

- Real estate development
- Insurance
- Banking
- Lending
- Lobbying
- Political consulting

Ineligible Businesses

- Wholesale trade
- Retail trade
- Leisure trade
- Hospitality
- Transportation
- Construction

Ineligible Businesses

- Professional services
 - *Attorneys*
 - *Accountants, Business Consultants*
 - *Physicians or Health Care Consultants*

Questions for You

- *How to further define and evaluate 'qualifying new business venture'?*
 - How to define technology businesses?
 - Cluster approach?
 - Application requirements?
 - Other criteria?

Angel Investment Credit

- “Bona fide angel investment” is the purchase of an equity interest or any other expenditure by an eligible party
- Commerce must further define bona fide angel investment by rule

Angel Investment Credit

- Bona fide angel investment
Eligible Party:
 - *An individual who reviews new businesses or proposed new businesses for potential investment,*
or
 - *An angel network (single purpose entity)*

What the Act Provides...

Angel Investment Credit

- Program becomes effective for any taxable year beginning 1/1/05
- \$30 million program maximum
- Up to \$3 million in tax credits can be claimed per year
- First come, first served

What the Act Provides...

Angel Investment Credit

- Investment maximum is \$500,000 per investor/per business
- Maximum \$1 million per business

What the Act Provides...

Angel Investment Credit

- Credits total 25% for each bona fide investment in qualifying business venture
- Credits will be distributed at 12.5% for 2 consecutive years, beginning in the year the direct investment is made
- Non-refundable, 15 yr. carryforward

Questions for You

- *How to further define and evaluate 'bona fide angel investment'?*
 - By an accredited investor?
 - With a track record?
 - By an independent third party?
 - How to ensure this?
 - Equity vs. loan?
 - What type of investment qualifies?

Early Stage Seed Investment Credit

- Investment fund manager must be certified by Commerce
- Investment fund manager must commit to consider investing in qualifying business ventures

Early Stage Seed Fund Manager Criteria

- Commerce will consider:
 - Fund manager's experience in managing venture capital funds
 - Past performance of investment funds managed by applicant
 - Expected level of investment in the fund
 - Other relevant factors

Early Stage Seed Fund Manager Criteria

- Other relevant factors can include:
 - Geographic area served
 - Targeted market
 - Relationship with recognized resource centers
 - Ability to attract follow-on funding
 - Services to be provided by fund

What the Act Provides...

Early Stage Seed

- Program becomes effective for any taxable year beginning 1/1/05
- \$35 million program maximum
- Up to \$3.5 million in tax credits can be claimed in any one year
- Non-refundable, 15 yr. carryforward
- First come, first served

What the Act Provides...

Early Stage Seed

- Credit totals 25% of the funds invested in a qualifying business venture
- No cap on per business investment eligible for credits

Questions for You

- *How to further define and evaluate 'qualifying investment seed fund'?*
 - Minimum/maximum fund size?
 - How many funds should Commerce certify given the limited credit pool?

What the Act Provides...

Other Provisions

- A business must submit an application to Commerce in each year for which it desires certification

What the Act Provides...

Other Provisions

- Commerce must maintain a website that lists certified qualifying business ventures and certified investment fund managers

What the Act Provides...

Other Provisions

- Commerce must submit an annual report to the legislature quantifying the program outcomes

Technology Commercialization Grants and Loans

- Four Programs:
 - Early Stage Planning Grants and Loans
 - Matching Grants and Loans
 - Bridge Grants and Loans
 - Venture Capital Grants and Loans

Technology Commercialization Grants and Loans

- \$2.6 million available per biennium (\$500,000 for Entrepreneur Center)
- Application process for these programs will be continuous

Eligible Applicant

- Small business, or start-up, completing an application to federal government to obtain early stage research and development funding
- Exception:
 - For Matching Grants and Loans Program, does not have to apply for federal early stage research funding

Eligible Applicant

- Individual starting or developing business with significant growth potential, evidenced by attracting early stage financing, but needs assistance to start the business

Eligible Applicant

- Other criteria:
 - Match funding from sources other than State to finance project
 - Business location in State
 - If a product, must be manufactured primarily in State

Eligible Applicant

- Other criteria:
 - Principal place of business from which services are sold is in state
 - All grant moneys will be spent in the state

Early Stage Planning Grants and Loans *Statutory Criteria*

- The amount of economic impact applicant will have in Wisconsin
- Quality of any business assisting the applicant
- Level of need of applicant
- Applicant past record of obtaining early state financing

Early Stage Planning Grants and Loans *Eligible Activities*

- Funding professional services to complete federal application to obtain early stage research and development funding
- Funding 3rd party professional services required to accomplish tasks to receive early stage financing

Early Stage Planning

Grants and Loans

Funding Availability

- Up to \$15,000 or 75% of total project costs, whichever is less
- Department may contract with and pay proceeds directly to service provider for services performed under the grant

Matching Grants and Loans

Statutory Criteria

- Department shall consider:
 - Viability of applicant's business
 - Likelihood applicant will commercialize technology
 - Management plan and team
 - Economic impact in state
 - Record of obtaining early stage financing

Matching Grants and Loans

Eligible Activities

- Funding professional services to develop proposed innovative product, process or service, if have already received grant from federal government for same purpose

Matching Grants and Loans

Eligible Activities

- Funding professional services to accelerate commercialization if federal government has notified applicant they will be receiving a federal grant for same purpose

Matching Grants and Loans

Funding Availability

- Up to 20% of the project cost or \$250,000, whichever is less
- Department may contract and pay proceeds directly to any person who provides services performed under the grant

Bridge Grants and Loans

Statutory Criteria

- Must have received early stage financing from 3rd party or early stage financing grant from federal government

AND

- Must have sought additional early stage financing from 3rd parties or applied for additional early stage financing federal grant

Bridge Grants and Loans

Eligible Activities

- Funding professional services necessary to maintain the project research and management team
- Funding basic operations until 3rd party financing request or federal grant is approved or denied

Bridge Grants and Loans

Funding Availability

- Up to 75% of the total project costs or \$100,000, whichever is less
- Department may contract and pay proceeds directly to any person for services performed under the grant

Venture Capital Grants and Loans *Eligible Activities*

- Enhancing the applicant's ability to obtain early stage financing from 3rd parties

Venture Capital Grants and Loans *Funding Availability*

- May not exceed 50% of the project costs or \$250,000, whichever is less

Questions for You

- *How to Define:*
 - Small business?
 - Professional services?
 - Grants from federal government?
 - Project costs?

Questions for You

- *How to document eligible activities?*
- *Should providers be paid directly?*
- *How to monitor compliance?*
- *How to audit the program?*
- *How to demonstrate results?*

Entrepreneurial Centers

- Commerce writing a RFP - Request for Proposals
- Goal: To provide a full range of support services to entrepreneurs

What the Act Says...

Center(s) Must:

- Serve multiple regions of the state
- Provide business development assistance
- Review and analyze business plans and offer advice

What the Act Says...

Center(s) Must:

- Provide advice on patents, trademarks and copyright issues
- Make appropriate referrals

What the Act Provides

- Up to \$500,000 annually

What the RFP Will be Looking For

- Ability to reach and serve the diverse entrepreneurial community
- Access to expert resources and sources of capital
- A demonstrated track record in assisting entrepreneurs

Examples of Center Activities

- Serve as single point of entry for Entrepreneurial assistance
- Evaluate technical, market and business positions of an enterprise
- Coordinate commercialization process

Examples of Center Activities

- Create a mentoring program for Entrepreneurs
- Provide financial information, contacts, assistance

What the RFP Will Be Looking for

- Centers that serve all types of entrepreneurs
- Centers that will be able to serve the entire state
- Centers will not take a financial interest in entities receiving services from the center.

Entrepreneurial Center

- Center(s) must have demonstrated ability to assist entrepreneurs.
- Center cannot take a financial interest in entities receiving services from the center.

Thank you for attending!

Special thanks to WE
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listening session